Do Minority Banks Matter? Evidence from the Community Reinvestment Act

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Motivation

• Fair and equitable access to credit to minorities is an important policy goal
• ECOA, CRA, Fair Housing Laws – Long running banking regulations based on income targeting
• Yet, the redistributive goals of such policies remain underachieved
• The racial homeownership gap, was at its highest in 2019, 31.2% – persistent and increasing

Research Question

• Can Minority Depository Institutions (MDIs) help?
  - Mission-driven lending, social, cultural, and geographic proximity
• Census tracts that lose MDI presence following MDI-Community bank mergers, see a decline of about 37% in mortgage credit supply

• Decline is persistent up to 6 years, back of envelope calculation ~ about $92 billion less minority mortgage credit in aggregate

• Census tracts that see physical closure of MDI branches see higher decline vis-à-vis tracts where branch ownership changes

• Loss of MDI presence at a tract-level results in a decline of about 3% in minority homeownership at a county-level
Minority Depository Institutions

Defined in Section 308 of the FIRREA and Section 367 of Dodd Frank

• 51 percent or more of the voting stock is owned by minority individuals

• OR a majority of the board of directors is minority

• AND the community that the institution serves is predominantly minority

• Minority - Minority” (Section 308 of FIRREA) “Black-American, Asian American, Hispanic American, or Native American.”
Geographic Location
Structural Changes

Changes Between 2001 and 2018

- Number of MDI Charters
- MDIs in 2001: 164
- MDIs in 2018: 149
- New Charters: +32
- Redesignations: +103
- Failures: -40
- Mergers: -80
- Other: -6

Source: FDIC
Result – 1

This figure plots the coefficients of the following model:

$$
\log(y_{i,t}^{minority}) = \alpha + \gamma_{t}\cdot I_{T_{t-1}} + \beta_{1} \sum T_{t-1} \cdot \beta_{2} X_{i,t-1} + \varepsilon_{t,i},
$$
Result – 2

This figure plots the coefficients of the following model:

\[ \log(y_{it}^{\text{minority}}) = \alpha_i + \gamma_{it} + \beta_1 \text{Treat}_i \cdot \text{Post}_t \cdot \mathbf{C}_i + \beta_2 X_{it-1} + \epsilon_{it}, \]
Instrumental Variable

\[ C_{i,t} = \sum_b S_{b,i,t} \times \frac{\text{Exam}_{b,t}}{R_{i,t}} \]
Result – 3

This figure plots the coefficients of the following model:

\[ F_{\text{minority}} = \alpha_i + \gamma_{d,d} + \beta_1 \text{Treat}_i \cdot \text{Post}_i \cdot C_i + \beta_2 X_{i,d-1} + \epsilon_{i,t} \]
Result – 4

This table estimates the following model:

\[ M_{c,t} = \alpha_c + \gamma_{m,t} + \beta_1 S_{c,t-1} + \beta_2 X_{c,t-1} + \epsilon_{c,t}, \]

<table>
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<th>County Year - Percentage Minority Home-ownership</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
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<tr>
<td></td>
<td>(1.0277)</td>
<td>(1.3991)</td>
<td>(12.3100)</td>
<td>(1.4860)</td>
<td>(1.5675)</td>
<td>(0.5813)</td>
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<td>County GDP</td>
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<td>County FE</td>
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<td>Adjusted (R^2)</td>
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<td>0.9918</td>
<td>0.9940</td>
<td>0.9882</td>
<td>0.9859</td>
<td>0.9894</td>
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</tbody>
</table>

Sub-sample                                    | Full      | Full      | Full      | Large Metro | Central City | Suburb   |

* p < 0.10, ** p < 0.05, *** p < 0.01
Conclusions

• MDIs are examples of a fruitful symbiotic relationship between the markets, the state, and the community

• A significant and persistent minority credit supply gap results when neighborhoods lose the presence of local minority-owned banks.

• MDIs matter significantly in reducing the homeownership gap, every effort must be made to preserve and promote this unique banking ecosystem

• Best effort basis – Section 308 of FIRREA, tax holidays dedicated to minority bank investments and benefits in terms of regulatory ratios would be two steps in the right direction